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TAGS: [EPET](#) [ENRG](#) [ECON](#) [EINV](#) [EAID](#) [PREL](#) [IZ](#)  
SUBJECT: PM ADVISOR SIGNALS IRAQ WILL LIKELY NEGOTIATE, NOT  
DEMAND, A HIGHER OPEC QUOTA

REF: 09 BAGHDAD 3287

Classified By: EMIN John Desrocher for reasons 1.5 b,d

[¶1.](#) (C) On January 20, the Chair of the Prime Minister's Advisory Commission (and former Oil Minister) Thamir Ghadhban told Emboffs that the GOI was moderating its rhetoric on oil production increases and compliance with an eventual OPEC quota. He noted approvingly the shift in emphasis in Oil Minister Hussain Al-Shahristani's remarks from maximizing oil production to maximizing revenues. This more thoughtful message contrasts with Ghadhban's public declaration last month at the Iraq Petroleum 2009 conference in London that "nobody will stop us" from increasing oil production. Instead, Ghadhban outlined a less confrontational approach to OPEC producers, saying "Why should Iraq make other OPEC members nervous? We need to lobby for support, not antagonize them."

[¶2.](#) (C) Ghadhban expressed skepticism about both the feasibility and wisdom of increasing Iraqi oil production to 12 million barrels per day over the next decade. Based on his 30 years of experience as a reservoir engineer, he told Emboffs, he did not think the very high production plateaus promised in the first bid round are attainable. The formula used to score the first bid round, he explained, was heavily weighted towards production volumes rather than cost. This created an incentive for bidders to promise very aggressive levels of production in order to win the contract.

[¶3.](#) (C) Asked about the 12 million barrel per day goal, Ghadhban said "I don't like to talk about those big numbers." While not ruling out that Iraq could someday get there, he stressed that increasing Iraq's oil production will be a gradual process. It is more important in the short term to focus first on halting the natural process of field production declines and then on attaining a ten percent incremental increase in production from those fields. Production from the new fields awarded in bid round two will take several years to come on line, he said, and will face a number of important challenges along the way. Among these challenges he listed: inadequate infrastructure; lack of technical capacity; the need to design and install enormous water handling systems; an unstable social and political environment; and challenges with land acquisition. Finally, he asked rhetorically, what purpose would it serve for Iraq to install capacity to produce 12 million barrels per day if it only has an OPEC quota to export 6 million barrels per day?

[¶4.](#) (C) Comment: Previous public remarks by OPEC officials have suggested that OPEC would likely seek to exercise discipline on Iraqi production once it approached 4 million

barrels per day. Ghadhban's choice of the much higher 6 million barrels per day figure (a long-time Iraqi oil production goal) to illustrate even his reduced expectations scenario is revealing and generally in keeping with the spirit of his remarks in London. While he recognizes that for both technical and political reasons Iraq might never reach 12 million barrels per day, it seems equally clear that Iraq is not prepared to settle for only 4 million barrels per day. Iraq's ability to exceed this level, however, depends crucially on addressing precisely those capacity and infrastructure issues Ghadhban highlighted in his talk with

us. As the GOI gradually succeeds at these tasks, exports will rise, increasing tensions with OPEC. Now that the flush of its bid round victories has faded, the GOI is moderating its triumphalist tone. Ghadhban's remarks seem to presage an increased GOI willingness to discuss production quotas with OPEC, while also laying down a marker that it expects those quotas to be substantially higher than OPEC perhaps has in mind.

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